

Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 EA-07 ISO-00 SIG-01 AID-05 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 IO-13 NEA-10 NSAE-00
USIA-06 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01
AGRE-00 OMB-01 ERDA-05 DODE-00 FPC-01 H-01 INT-05
L-03 NSC-05 PM-04 OES-06 SS-15 STR-04 ACDA-07 FEA-01
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TO USMISSION OECD PARIS PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY STOCKHOLM

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY MADRID

AMEMBASSY ANKARA

AMEMBASSY WELLINGTON

AMEMBASSY OSLO

AMEMBASSY ATHENS

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E.O. 11652:

TAGS: ENRG, OECD

SUBJECT: IEA: MEETING OF STANDING GROUP ON THE OIL
MARKET (SOM); JANUARY 24-25, 1977

1) BEGIN SUMMARY: SOM HELD SPECIAL TWO-DAY MEETING JANUARY 24-25 TO DISCUSS AND DRAW UP INITIAL ASSESSMENT OF OIL MARKET SITUATION IN WAKE OF OPEC DOHA PRICE DECISION. AD HOC GROUP ON CRUDE COST AND CRUDE AND PRODUCT PRICE SYSTEMS MEETING MORNING JANUARY 24 AGREED FOR A TRIAL PERIOD OF FIRST QUARTER 1977 TO SHIFT CRUDE COST AND PRICE REPORTING TO MONTHLY BASIS AS WELL AS CRUDE PRICE DATA ON A "DATE OF LOADING" BASIS. HALF DAY CONSULTATIONS WERE HELD RESPECTIVELY WITH SHELL AND EXXON IN WHICH THE TWO COMPANIES GAVE THEIR ASSESSMENTS OF THE PRESENT INTERNATIONAL OIL MARKET SITUATION AND DISCUSSED THE IMPLICATIONS OF THE TWO-TIER PRICE SYSTEM FOR THE INDUSTRY AS A WHOLE AS WELL AS FOR THEIR RESPECTIVE COMPANIES. BOTH CONSULTATIONS CONVEYED A STRONG FEELING OF UNCERTAINTY ON THE PART OF THE COMPANIES REGARDING THE PRESENT SITUATION AND ITS LIKELY EVOLUTION. SOM DEVOTED AFTERNOON OF JANUARY 25 TO EXTENSIVE DISCUSSION OF SECRETARIAT PAPER ON IMPLICATIONS OF THE TWO-TIER PRICE SYSTEM FOR THE OIL MARKET (IEA/SOM (77)2 TO BE SUBMITTED TO JANUARY 31 - FEBRUARY 1 GB MEETING. GROUP INSTRUCTED SECRETARIAT TO SHORTEN THE PAPER CONSIDERABLY, TO DELETE

SPECIFIC DATA AND REPLACE IT WITH MORE GENERAL NARRATIVE IN SEVERAL SECTIONS TO BETTER REFLECT PRESENT UNCERTAINTIES - E.G., WORLD OIL DEMAND, OPEC PRODUCTION LEVELS; EXPECTED SAUDI, UAE PRODUCTION CAPACITY; POSSIBLE REDUCED PRODUCTION SCENARIOS FOR THE OPEC 11. UPON US SUGGESTION, WITH SUPPORT OF UK AND NORWAY, GROUP AGREED TO DELETE SECTION OF PARAGRAPH SUGGESTING MERITS
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OF COMPANY-BY-COMPANY MONITORING IN PRESENT CIRCUMSTANCES THROUGH SUBMISSION OF DISAGGREGATED COMPANY DATA. GROUP ALSO AGREED FOR THE PRESENT ON INADVISABILITY OF ANY ACTIVE AGENCY EFFORTS TO SEEK TO EQUALIZE CRUDE OIL COSTS AND PRICES. NEXT MEETING OF SOM TENTATIVELY SET FOR LAST WEEK IN MARCH 1977. END SUMMARY.

2) AD HOC GROUP ON CRUDE COST AND CRUDE AND PRODUCT PRICES: GROUP MET TO CONSIDER WAYS TO ADAPT THE SOM INFORMATION SYSTEM TO PROVIDE MORE TIMELY DATA DURING THE PRESENT TWO-TIER MARKET SITUATION. IT WAS AGREED TO REPORT CRUDE COSTS AND CRUDE PRICES ON A MONTHLY BASIS DURING THE FIRST QUARTER OF 1977, WITH CRUDE PRICES BEING REPORTED ON A "DATE OF LOADING" RATHER THAN "DATE OF DISCHARGE" BASIS. AT THE END OF THE FIRST QUARTER, IT WOULD BE DECIDED WHETHER THE MARKET SITUATION JUSTIFIED A CONTINUATION OF THESE TEMPORARY MEASURES. THE GROUP CONSIDERED THE POSSIBILITY OF BREAKING DOWN REPORTING OF IMPORTS BETWEEN AFFILIATES AND NON-AFFILIATES

AS WELL AS THE BREAKDOWN OF UAE AND OTHER CRUDES BY STREAM BUT DECIDED AGAINST PROCEEDING AT THIS TIME WITH EITHER OF THESE PROPOSALS. THE GROUP ALSO WAS BRIEFED BY SECRETARIAT ON THE USE OF NEW GOVERNMENT REPORTING FORMS FOR CRUDE AND PRODUCT PRICES THE USE OF WHICH IS EXPECTED TO FACILITATE PROMPTER DATA PROCESSING BY THE SECRETARIAT. SOM SUBSEQUENTLY ENDORSED THE DECISIONS OF THE AD HOC GROUP.

3) CONSULTATION WITH SHELL INTERNATIONAL PETROLEUM CO., LTD.: SHELL PRESENTATION FOCUSSED ON LIKELY 1977 ENERGY AND OIL DEMAND, CRUDE SUPPLY AND STOCKS, OIL COSTS AND COMPANY PROFITABILITY. COMPANY ASSUMED THAT TWO-TIER PRICE SYSTEM WOULD CARRY THROUGH SECOND QUARTER 1977, WITH SOME ACCOMODATION BEING REACHED BY MIDYEAR LEADING ONCE AGAIN TO A SINGLE PRICE. SHELL FORECAST SAUDI CRUDE AVAILABILITY AT 9.8 MILLION B/D FOR 1977, UAE AT
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2.3 MILLION B/D, WITH KUWAIT (1.7) AND IRAN (5.6) DOWN CONSIDERABLY AND IRAQ TO A LESSER EXTENT (2.4). SHELL PRESENTLY HAS AVAILABLE SOME 200,000 B/D OF SAUDI AND UAE CRUDE AND IS CURRENTLY NEGOTIATING WITH SAUDIS FOR AN ADDITIONAL 200,000 B/D. AFTER DEDUCTING FOR ANTICIPATED LOSS OF 50,000 B/D UNDER EXCHANGES, EXPECTS TO HAVE SOME 350,000 B/D OF 5 PERCENT CRUDE, ABOUT 8 PERCENT OF TOTAL SHELL CRUDE AVAILABILITY. SHELL ACKNOWLEDGED THE ABOVE SUPPLY SITUATION PLACES IT IN THE CATEGORY OF ONE OF THE LESS FAVORED INTERNATIONALS. IT CALCULATES ITS WEIGHTED AVERAGE COST INCREASE PER BARREL AT \$1.06, SOME 13 CENTS ABOVE THE INDUSTRY AVERAGE...
THUS, SHELL'S HOPE FOR AN EARLY COMPROMISE IN THE TWO-TIER PRICE BATTLE. SHELL ARGUED, IN FACT, THAT AN AGREED COMPROMISE ON A SINGLE OPEC PRICE WOULD BE IN THE INTEREST OF ALL CONCERNED. WITH RESPECT TO A POSSIBLE IEA ROLE IN THE PRESENT SITUATION, SHELL URGED EXTREME CAUTION, SUGGESTING THAT ANY INVOLVEMENT FAVORING ONE SIDE OR THE OTHER WOULD BE RISKY. SEPARATE REPORT ON SHELL CONSULTATION FOLLOWING SEPTTEL.

4) CONSULTATION WITH EXXON CORPORATION: EXXON PRESENTATION FORECAST ADEQUATE OVERALL CRUDE SUPPLY FOR 1977, BUT INCREASINGLY TIGHT SITUATION FOR LIGHT, LOW SULFUR CRUDES. EXXON HAD ORIGINALLY FORECAST ABOUT 4 MILLION B/D OF OPEC LIFTINGS, OF WHICH 50-55 PERCENT FROM SAUDI/UAE SOURCES. IT NOW EXPECTS AN ADDITIONAL JANUARY/FEBRUARY 5 PERCENT CRUDE AVAILABILITY OF SOME 300-400,000 B/D MOST OF WHICH IS SAUDI HEAVY. EXXON STATED IT WILL MAKE AVAILABLE THIS INCREMENTAL OIL TO AFFILIATES, EXISTING THIRD PARTIES AND NEW THIRD PARTIES-

THE LATTER ON A GEOGRAPHICALLY DISPERSED BASIS GENERALLY THROUGH SPOT SALES. EXXON FORECASTS ITS AVERAGE WEIGHTED CRUDE COST INCREASE AT 7 PERCENT, SOME 13 CENTS PER BARREL BELOW THE INDUSTRY AVERAGE. IT DOWNPLAYED THE MAGNITUDE OF THE PRICE DIFFERENTIAL BETWEEN 5 AND 10
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PERCENT SUPPLIERS, SUGGESTING IT IS RELATIVELY MODEST IN COMPARISON TO THE TOTAL COST OF DOING BUSINESS. FINALLY, EXXON CAUTIONED AGAINST ANY MOVES BY CONSUMING COUNTRIES TO IMPEDE THE EFFECTS OF THE TWO-TIER SYSTEM, SUGGESTING SUCH ACTION WOULD BE COUNTERPRODUCTIVE AND DETRIMENTAL.

5) REPORT TO THE GB ON IMPLICATIONS OF THE TWO-TIER PRICE SYSTEM FOR THE OIL MARKET (IEA/SOM (77)2 AND ANNEX): DURING INITIAL EXCHANGE OF VIEWS ON THE ABOVE PAPER DELEGATIONS AGREED THAT DOCUMENT GOING TO GB SHOULD CONVEY GREATER DEGREE OF UNCERTAINTY REGARDING THE TWO-TIER PRICE SYSTEM AND THE PRESENT OIL MARKET THAN WAS PROJECTED IN SECRETARIAT DRAFT. SEVERAL DELEGATIONS, LED BY US, URGED THAT REPORT FOCUS LESS ON SPECIFIC DATA REGARDING DEMAND, PROJECTED PRODUCTION LEVELS AND PRODUCTION CAPACITIES ALL OF WHICH TEND TO DOWNPLAY THE GENERAL UNCERTAINTY WHICH CHARACTERIZES THE PRESENT SITUATION. SECRETARIAT WAS INSTRUCTED TO

REPLACE SPECIFIC NUMBERS AND TABLES WITH RANGES AND, WHERE APPROPRIATE NARRATIVE TO DESCRIBE A SITUATION. SECRETARIAT WAS ALSO ASKED TO SHORTEN THE REPORT CONSIDERABLY, DELETING SEVERAL PARAGRAPHS DEEMED TO BE OF MARGINAL RELEVANCE. US, WITH STRONG SUPPORT OF UK, CHALLENGED ASSUMPTION OF SECTION OF SECRETARIAT DRAFT SUGGESTING THAT COMPANY-BY-COMPANY MONITORING WOULD SERVE THE INTERESTS OF PARTICIPATING COUNTRIES IN THE PRESENT SITUATION. ITALY, A CONSISTENT ADVOCATE OF DISAGGREGATION, URGED RETENTION OF SECRETARIAT TEXT. US OFFERED A SUBSTITUTE PARAGRAPH WHICH NOTED THAT AGGREGATED DATA COULD BE SUPPLEMENTED BY CONSULTATION PROCESS, IN EVENT OF INCONSISTENCIES OR ANOMALIES IN DATA SUBMITTED BY USE OF THE "CHAIRMAN'S COMPROMISE." ITALY CONTINUED TO HOLD OUT FOR ORIGINAL LANGUAGE.
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CHAIRMAN BECKER THEN PROPOSED ADDITION OF AN INITIAL

SENTENCE PRIOR TO US LANGUAGE STATING THAT PRESENT
REPORTING SYSTEMS ARE BASED ON PRINCIPLE OF AGGREGATION
SO THAT NO INDIVIDUAL COMPANY DATA ARE IDENTIFIED.
SOM EVENTUALLY AGREED ON THIS. GROUP ALSO AGREED ON
INCLUSION OF LANGUAGE IN FINAL PARAGRAPH OF THE DOCU-
MENT CAUTIONING AGAINST ANY IEA INITIATIVE AT THE
PRESENT TIME TO BRING ABOUT AN EQUALIZATION OF OIL COSTS
AND PRICES.
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Message Attributes

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Disposition Approved on Date:
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